

CITY OF TREMONTON  
FINANCIAL STATEMENTS

June 30, 2006

**TREMONTON CITY**  
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## INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council  
City of Tremonton  
Tremonton, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tremonton, Utah (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and additional infrastructure information on pages 3 through 10 and 49 through 56, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information on pages 59 through 72 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

The other schedules in the supplementary information on pages 73 through 76 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly we express no opinion on them.



JONES SIMKINS, P.C.  
December 21, 2006

**CITY OF TREMONTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2006**

This document is a narrative overview and analysis of the financial activities of Tremonton City for the fiscal year ending June 30, 2006. Tremonton City's management suggests that all readers consider the information presented here in conjunction with the financial statements which follow this section. In this report the city's activities are classified in the following manner: governmental activities which refers to general administration, public safety, streets and public improvements, parks, recreation, public property, library, and a separate budget for it's Redevelopment Agencies, etc., while business-type activities refer to operations of the water, sewer, and wastewater utilities, with a new Storm Drain Utility being proposed in the future.

**FINANCIAL HIGHLIGHTS**

- Total net assets of Tremonton City increased by \$1,656,160 totaling \$19,055,587. The governmental net assets increased by \$1,084,939 and the business-type net assets increased by \$571,221.
- The total net assets of government and business-type activities are \$19,055,587. Of this amount, \$807,196 is unrestricted for governmental activities and \$867,457 is unrestricted for business-type activities.
- Total long-term liabilities of the city have decreased by \$434,287. The decrease in long-term liabilities was primarily the result of payments being made on bonds and leases.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Tremonton City's basic financial statements. Tremonton City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

- *The government-wide financial statements* are designed to provide readers with a broad overview of Tremonton City's finances in a manner similar to a private-sector business.
- *The Statement of Net Assets* presents information on all of Tremonton City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Tremonton City is improving or deteriorating. However, you will also need to consider other non-financial factors.
- *The Statement of Activities* presents information showing how the city's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash



CITY OF TREMONTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

- The Statement of Net Assets and the Statement of Activities, which together comprise the government-wide financial statements, distinguish between activities that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements can be found in this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Tremonton City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the city can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds** - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the city's general government operations and basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the city's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as defined by generally accepted accounting principles) are the General Fund and the Redevelopment Agency #3. The City also maintains the Parks fund, Capital Improvement fund, and Redevelopment Agency #2. Tremonton City adopts an annual budget for the General fund and Redevelopment Agency #3 adopts a budget also.

- **Proprietary funds** - Tremonton City maintains one type of proprietary fund, enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Tremonton City uses enterprise funds to account for its culinary water, sewer, and wastewater treatment utilities. As determined by generally accepted accounting principles, each of these enterprise funds meets the criteria for major fund classification.

**CITY OF TREMONTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2006**

- **Fiduciary funds** - These funds are used to account for resources held for the benefit of parties outside the government. The city currently has no fiduciary funds.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Tremonton City, assets exceed liabilities by \$19,055,587.

By far the largest portion of Tremonton City's net assets, (85.7%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, machinery and equipment, net of depreciation). The city uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the city's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**STATEMENT OF NET ASSETS**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets \$	2,185,943	2,841,834	1,513,651	1,965,643
Capital assets, net	<u>11,861,695</u>	<u>12,101,636</u>	<u>6,876,899</u>	<u>6,750,948</u>
Total assets	<u>14,047,638</u>	<u>14,943,470</u>	<u>8,390,550</u>	<u>8,716,591</u>
Current liabilities	2,206,549	2,338,482	358,323	291,318
Noncurrent liabilities	<u>1,291,787</u>	<u>970,747</u>	<u>1,182,102</u>	<u>1,003,927</u>
Total liabilities	<u>3,498,336</u>	<u>3,309,229</u>	<u>1,540,425</u>	<u>1,295,245</u>
Invested in capital assets, net of debt	10,213,177	10,780,218	5,477,808	5,549,346
Restricted	12,726	46,827	686,645	1,004,543
Unrestricted	<u>323,399</u>	<u>807,196</u>	<u>685,672</u>	<u>867,457</u>
Total net assets \$	<u>10,549,302</u>	<u>11,634,241</u>	<u>6,850,125</u>	<u>7,421,346</u>

**CITY OF TREMONTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2006**

**CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenues:				
Program revenues:				
Charges for services	\$ 890,042	990,960	1,609,403	2,028,070
Operating grants and contributions	400,243	576,612	-	-
Capital grants and contributions	-	53,314	9,024	14,664
General revenues:				
Taxes	3,090,432	3,577,015	-	-
Other	<u>46,454</u>	<u>48,417</u>	<u>52,183</u>	<u>105,933</u>
Total revenues	<u>4,427,171</u>	<u>5,246,318</u>	<u>1,670,610</u>	<u>2,148,667</u>
Expenses:				
General government	1,335,242	1,507,791	-	-
Public safety	1,195,612	1,267,018	-	-
Streets and highways	280,029	292,007	-	-
Sanitation	155,784	179,011	-	-
Parks and recreation	461,024	522,093	-	-
Health and human services	240,489	283,217	-	-
Interest	130,448	110,242	-	-
Water and sewer utility	-	-	834,625	826,971
Sewer treatment	-	-	687,582	738,595
Nonmajor	<u>-</u>	<u>-</u>	<u>11,880</u>	<u>11,880</u>
Total expenses	3,798,628	4,161,379	1,534,087	1,577,446
Change in net assets	628,543	1,084,939	136,523	571,221
Net assets - beginning	<u>9,920,759</u>	<u>10,549,302</u>	<u>6,713,602</u>	<u>6,850,125</u>
Net assets - ending	\$ <u>10,549,302</u>	<u>11,634,241</u>	<u>6,850,125</u>	<u>7,421,346</u>

**CITY OF TREMONTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2006**

An additional part of net assets are assets that are subject to external restrictions on how they may be expended (debt reserve, capital projects, redevelopment or other purposes). The remaining portion can be used to meet the city's ongoing obligations to its creditors and citizens.

**Governmental Activities**

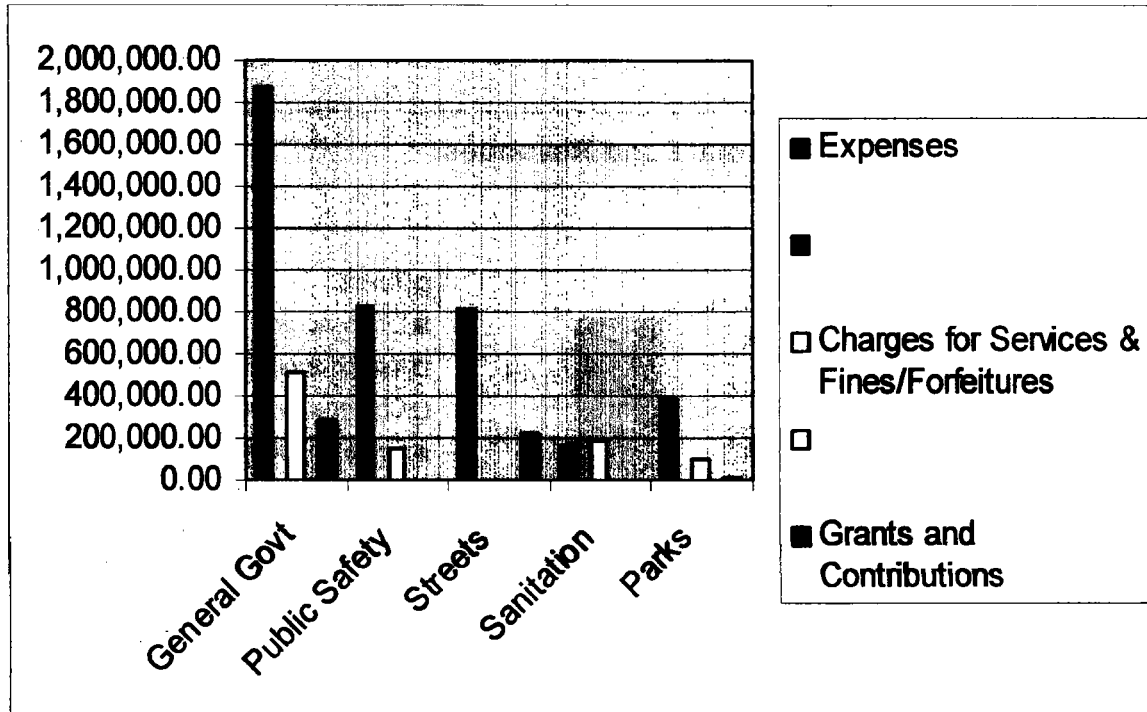
As noted in the table above Governmental Activities, net assets increased by \$1,084,939 this current fiscal year. Key elements of this increase are as follows:

- Property taxes increased due to property valuation increases. Industrial development and housing starts gave us our largest increase in revenues.
- Other notations:
  - 1) Sales tax actually saw a modest growth as retail leakage once again took its toll on our potential growth in revenues.
  - 2) The City's governmental activities avoided major projects in anticipation of a significant capital improvement to a portion of the City's roads planned for fiscal year 2007.
  - 3) The City continues to evaluate the status of its infrastructure using the alternative method which does not record depreciation on those assets. Rather, an evaluation is provided with the required supplementary information in the financial statements. The reader should refer to those schedules to evaluate the condition of the infrastructure of the City.

Sales, property and franchise taxes account for 61% of all revenue. The reader should be aware that the governmental revenues include the revenues of the RDA which are committed to various specific projects. The RDA continues to be successful in attracting capital intensive industries with higher than average wages. During the year, the City entered into two new projects which will generate significant tax revenues. The related RDA commitments to those projects are explained in more detail in the notes to the financial statements.

The following chart displays the governmental activities expenses compared to the program revenues attributed to the activity. Traditionally governmental activities are paid for by general fund sources and not charges for direct services.

**CITY OF TREMONTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2006**



**Business-type activities**

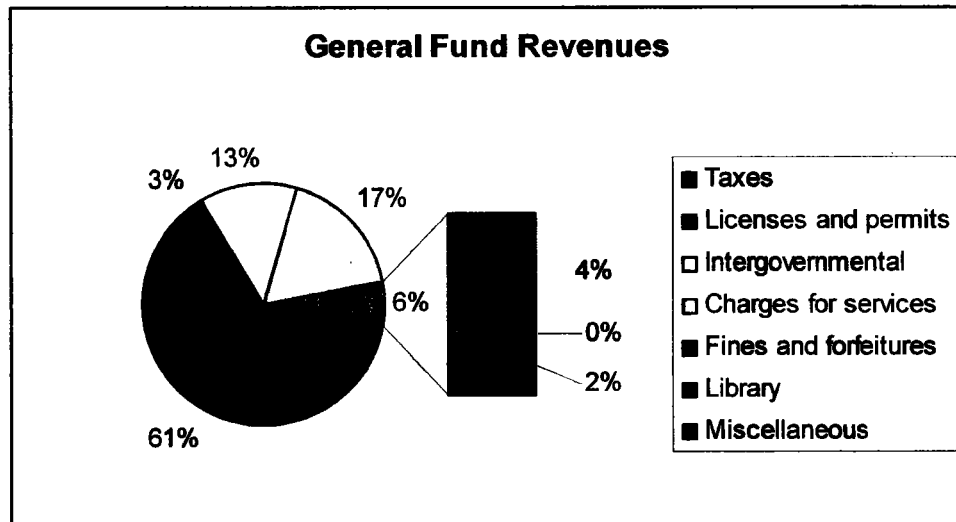
Business-type activities net assets increased by \$571,221. The City's business-type activities operated as designed. Charges for services increased due to additional users in the system. The business-type activities continue to be asset intensive and require continual improvements to ensure that the citizens are properly served.

**FINANCIAL ANALYSIS OF FUNDS**

The focus of the city's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the city's financing requirements. All activities which are not required to be accounted for in separate funds, either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

**CITY OF TREMONTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2006**

Taxes continue to be the largest source of revenue in the General Fund and represented 61% of the total general fund revenues, a decrease of 1% since 2005. During the year, the City received a federal grant related to public safety that increased intergovernmental revenues compared to last year.



The two largest elements of taxes are sales and use taxes and property taxes. Sales tax growth continues to be an important issue for the city as it accounts for job growth and inflation, unlike its companion property tax, which can not increase by inflationary impacts. The down side of property tax growth only coming from new improvements is that growth creates more population and infrastructure to service with fewer dollars each year.

During the year, the City established a capital projects fund. This fund will be used to accumulate resources to be used on future capital projects. The City transferred \$426,000 to this fund during the year.

The city maintains enterprise funds to account for the business-type activities of the city. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

Both the Water Fund and the Treatment Plant Fund benefited from new development resulting in significant increases to impact fees collected. In addition, overall dryer conditions resulted in an increase in water usage and a related increase in water service charges.

**CITY OF TREMONTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2006**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The budget is constantly under review by the office staff, mayor, and city council. Typically, adjustments to the budget are considered midway through the fiscal year. And considered again as the year comes to a close. Many adjustments are minor while some are of greater significance. During fiscal year 2006, the city did make such adjustments as noted above. The largest adjustments to the budget related to revising tax revenue estimates and the receipt of a federal grant for fire equipment. Additional amounts were budgeted for street improvements due to damage caused by flooding and various capital projects budgeted in the parks department. However, certain parks projects were not realized during the year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The City's total net assets only increased by approximately \$115,000 (both governmental and business-type activities). This reflects the City's plan to have limited capital projects this year in anticipation of significant capital projects during fiscal year 2007. There were no significant changes in the assessed condition of infrastructure assets. The City is required to revise its study of infrastructure during fiscal year 2007. The City's current assessed condition of infrastructure exceeds the required condition level. In addition, the actual expenditures on infrastructure are consistent with estimated requirements.

The City's long-term debt decreased by approximately \$500,000 as the City continued to make debt payment without incurring any significant new debt. Refer to the Schedule of Long Term Liabilities in the supplementary information for a complete breakdown for the next year's schedule of payments.

Additional information on the City's assets can be found in the footnotes to these financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- Because of delays by the State and Federal government, next years budget includes the 2000 West project which will show expenditures in both the General fund and Utility fund. Some, if not all, of the utility costs can be attributed to growth and its associated pressures for more capacity, so impact fees can be utilized where appropriate.
- No property tax or utility rate increases are in the plans for the next fiscal year, barring rising energy costs.

**CITY OF TREMONTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2006**

- Next year will also result in our three year update of our modified approach to evaluating infrastructure within the City. All items will be reviewed in detail and done in compliance with our modified approach. There is no reason to believe that we have derailed in our projections of capital expenditure needed to preserve our assets, nor have there been any catastrophic events that impacted our infrastructure.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Tremonton City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Tremonton City Manager, P. O. Box 100, Tremonton Utah, 84337.



## **Basic Financial Statements**

CITY OF TREMONTON  
STATEMENT OF NET ASSETS  
June 30, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<u>Assets</u>			
Pooled cash and cash equivalents	\$ 699,522	1,094,403	1,793,925
Accounts receivable, net	149,202	163,270	312,472
Due from other governments	2,104,189	-	2,104,189
Internal balances	(474,872)	474,872	-
Restricted cash and cash equivalents	-	232,538	232,538
Note receivable	108,172	-	108,172
Deposits	255,621	560	256,181
Land	646,216	55,150	701,366
Infrastructure	9,399,019	-	9,399,019
Construction in process	62,019	-	62,019
Buildings	830,896	1,792,638	2,623,534
Improvements	2,016,186	516,489	2,532,675
Water and sewer lines	-	2,512,426	2,512,426
Equipment	1,429,024	5,478,780	6,907,804
Accumulated depreciation	(2,281,724)	(3,604,535)	(5,886,259)
Total assets	14,943,470	8,716,591	23,660,061
<u>Liabilities</u>			
Accounts payable	70,997	13,631	84,628
Accrued expenses	38,832	57,000	95,832
Deposits due customers	-	7,512	7,512
Accrued interest payable	-	15,500	15,500
Deferred revenue	1,758,982	-	1,758,982
Long-term liabilities:			
Due within one year	392,671	197,675	590,346
Due in more than one year	1,047,747	1,003,927	2,051,674
Total liabilities	3,309,229	1,295,245	4,604,474
<u>Net Assets</u>			
Invested in capital assets, net of related debt	10,780,218	5,549,346	16,329,564
Restricted	46,827	1,004,543	1,051,370
Unrestricted	807,196	867,457	1,674,653
Total net assets	\$ 11,634,241	7,421,346	19,055,587

The accompanying notes are an integral  
part of these financial statements

**CITY OF TREMONTON**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental:							
General government	\$ 1,507,791	137,782	6,774	-	(1,363,235)	-	(1,363,235)
Public safety	1,267,018	504,129	143,620	-	(619,269)	-	(619,269)
Streets/highways	292,007	-	236,624	-	(43,383)	-	(43,383)
Sanitation	179,011	190,828	-	-	11,817	-	11,817
Cultural, parks and recreation	522,093	155,374	6,401	53,314	(307,904)	-	(307,904)
Health and human services	283,217	2,847	183,193	-	(97,177)	-	(97,177)
Interest	110,242	-	-	-	(110,242)	-	(110,242)
Total governmental activities	4,161,379	990,960	576,612	53,314	(2,540,493)	-	(2,540,493)
Business-type activities:							
Utility fund	826,971	1,171,776	-	-	-	344,805	344,805
Treatment plant fund	738,595	849,091	-	14,664	-	125,160	125,160
Nonmajor	11,880	7,203	-	-	-	(4,677)	(4,677)
Total business-type activities	1,577,446	2,028,070	-	14,664	-	465,288	465,288
Total primary government	\$ 5,738,825	3,019,030	576,612	67,978	(2,540,493)	465,288	(2,075,205)
General revenues:							
Taxes:							
					\$ 1,846,341	-	1,846,341
					1,033,319	-	1,033,319
					697,355	-	697,355
					3,577,015	-	3,577,015
					21,353	30,212	51,565
					27,064	75,721	102,785
					3,625,432	105,933	3,731,365
					1,084,939	571,221	1,656,160
					10,549,302	6,850,125	17,399,427
					11,634,241	7,421,346	19,055,587

The accompanying notes are an integral part  
of these financial statements.

CITY OF TREMONTON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Special Revenue Redevelopment Agency #3	Nonmajor Funds	Total Governmental Funds
<u>Assets</u>				
Pooled cash and cash equivalents	\$ 216,852	2,413	480,257	699,522
Due from pooled cash	55,354	-	-	55,354
Accounts receivable, net	140,787	8,415	-	149,202
Due from other governments	1,008,604	1,041,585	54,000	2,104,189
Deposits	10,179	127,040	118,402	255,621
Due from other funds	-	-	26,515	26,515
Note receivable	108,172	-	-	108,172
Total assets	\$ 1,539,948	1,179,453	679,174	3,398,575
<u>Liabilities and Fund Balance</u>				
<u>Liabilities:</u>				
Due to pooled cash	\$ -	-	55,354	55,354
Accounts payable	51,889	14,787	4,321	70,997
Accrued expenses	38,832	-	-	38,832
Due to other funds	-	474,872	26,515	501,387
Deferred revenue	784,733	1,050,000	54,000	1,888,733
Total liabilities	875,454	1,539,659	140,190	2,555,303
<u>Fund balance (deficit):</u>				
Reserved	13,736	-	-	13,736
Designated	-	-	-	-
Unreserved - undesignated	650,758	(360,206)	538,984	829,536
Total fund balance (deficit)	664,494	(360,206)	538,984	843,272
Total liabilities and fund balance	\$ 1,539,948	1,179,453	679,174	3,398,575

The accompanying notes are an integral  
part of these financial statements

CITY OF TREMONTON  
RECONCILIATION OF THE BALANCE SHEET  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
For the Year Ended June 30, 2006

Total fund balances for governmental funds \$ 843,272

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Land	\$ 646,216	
Infrastructure	9,399,019	
Construction in progress	62,019	
Buildings	830,896	
Improvements	2,016,186	
Equipment	1,429,024	
Accumulated depreciation	<u>(2,281,724)</u>	12,101,636

Some of the City's earned revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 129,751

Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not in the funds.

Bonds payable	\$ (1,175,000)	
Compensated absences	(119,000)	
Capital leases	<u>(146,418)</u>	<u>(1,440,418)</u>

Net assets of governmental activities \$ 11,634,241

The accompanying notes are an integral part  
of these financial statements.

CITY OF TREMONTON  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	General	Special Revenue Redevelopment Agency #3	Nonmajor Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 2,458,359	1,053,730	53,526	3,565,615
Licenses and permits	136,786	-	-	136,786
Intergovernmental	549,471	-	-	549,471
Charges for services	658,427	-	30,690	689,117
Fines and forfeitures	148,732	-	-	148,732
Library	10,340	-	-	10,340
Miscellaneous	75,316	-	56,393	131,709
<b>Total revenues</b>	<b>4,037,431</b>	<b>1,053,730</b>	<b>140,609</b>	<b>5,231,770</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	475,104	963,239	2,208	1,440,551
Public safety	1,276,407	-	-	1,276,407
Streets/highways	450,711	-	-	450,711
Sanitation	179,011	-	-	179,011
Cultural, parks and recreation	511,709	-	119,385	631,094
Health and human service	271,766	-	-	271,766
<b>Debt Service:</b>				
Principal	376,750	-	-	376,750
Interest	83,854	34,666	1,263	119,783
<b>Total expenditures</b>	<b>3,625,312</b>	<b>997,905</b>	<b>122,856</b>	<b>4,746,073</b>
<b>Excess of revenues over expenditures</b>	<b>412,119</b>	<b>55,825</b>	<b>17,753</b>	<b>485,697</b>
<b>Other financing sources (uses):</b>				
Transfer to capital projects fund	(426,000)	-	426,000	-
Transfer to parks fund	(35,361)	-	35,361	-
Proceeds from capital lease	49,650	-	-	49,650
<b>Net other financing sources (uses)</b>	<b>(411,711)</b>	<b>-</b>	<b>461,361</b>	<b>49,650</b>
<b>Change in fund balance</b>	<b>408</b>	<b>55,825</b>	<b>479,114</b>	<b>535,347</b>
<b>Fund balance (deficit) - July 1</b>	<b>664,086</b>	<b>(416,031)</b>	<b>59,870</b>	<b>307,925</b>
<b>Fund balance (deficit) - June 30</b>	<b>\$ 664,494</b>	<b>(360,206)</b>	<b>538,984</b>	<b>843,272</b>

The accompanying notes are an integral  
part of these financial statements

CITY OF TREMONTON  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2006

Net change in fund balance - Total governmental funds	\$	535,347
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$420,013) exceeded depreciation (\$180,071) in the current period.

239,942

Some of the City's earned revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds

14,550

Bond proceeds and capital leases provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayment of bond and capital lease principal are expenditures in the governmental funds:

Proceeds from capital lease	\$	(49,650)	
Increase in vacation payable		(32,000)	
Payment of bond principal		260,000	
Payment of notes payable principal		16,515	
Payments on capital leases		100,235	295,100

Change in net assets of governmental activities	\$	1,084,939
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The accompanying notes are an integral part  
of these financial statements.

**CITY OF TREMONTON**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2006**

	Utility Fund	Treatment Plant Fund	Nonmajor Fund	Total Business Type Activities
<u>Assets</u>				
Current assets:				
Pooled cash and cash equivalents	\$ 521,266	561,562	11,575	1,094,403
Accounts receivable, net	71,275	91,327	668	163,270
Due from other funds	474,872	-	-	474,872
Total current assets	<u>1,067,413</u>	<u>652,889</u>	<u>12,243</u>	<u>1,732,545</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	46,216	186,322	-	232,538
Deposits	560	-	-	560
Fixed assets, net	3,081,934	3,583,169	85,845	6,750,948
Total noncurrent assets	<u>3,128,710</u>	<u>3,769,491</u>	<u>85,845</u>	<u>6,984,046</u>
Total assets	<u><u>4,196,123</u></u>	<u><u>4,422,380</u></u>	<u><u>98,088</u></u>	<u><u>8,716,591</u></u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	12,698	933	-	13,631
Accrued expenses	29,000	28,000	-	57,000
Deposits due customers	7,512	-	-	7,512
Accrued interest payable	4,000	11,500	-	15,500
Current portion of long-term liabilities	129,675	61,000	7,000	197,675
Total current liabilities	<u>182,885</u>	<u>101,433</u>	<u>7,000</u>	<u>291,318</u>
Noncurrent liabilities:				
Long-term liabilities, less current portion	<u>372,927</u>	<u>589,000</u>	<u>42,000</u>	<u>1,003,927</u>
Total noncurrent liabilities				
Total liabilities	<u>555,812</u>	<u>690,433</u>	<u>49,000</u>	<u>1,295,245</u>
<u>Net Assets</u>				
Invested in capital assets, net of related debt	2,579,332	2,933,169	36,845	5,549,346
Restricted	516,342	488,201	-	1,004,543
Unrestricted	544,637	310,577	12,243	867,457
Total net assets	<u>3,640,311</u>	<u>3,731,947</u>	<u>49,088</u>	<u>7,421,346</u>
Total liabilities and net assets	<u><u>\$ 4,196,123</u></u>	<u><u>4,422,380</u></u>	<u><u>98,088</u></u>	<u><u>8,716,591</u></u>

The accompanying notes are an integral  
part of these financial statements



CITY OF TREMONTON  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2006

	Utility Fund	Treatment Plant Fund	Nonmajor Funds	Total Business Type Activities
Operating revenues:				
Charges for services	\$ 883,416	747,683	7,203	1,638,302
Connection fees	26,247	-	-	26,247
Miscellaneous income	30,212	-	-	30,212
Total operating revenues	939,875	747,683	7,203	1,694,761
Operating expenses:				
Salaries and benefits	303,509	257,433	-	560,942
Current expenses	338,411	218,567	60	557,038
Depreciation	156,154	234,234	11,821	402,209
Total operating expenses	798,074	710,234	11,881	1,520,189
Operating income (loss)	141,801	37,449	(4,678)	174,572
Non-operating revenues (expenses):				
Impact fees	267,928	101,407	-	369,335
Interest income	51,887	23,814	20	75,721
Interest expense	(34,711)	(28,360)	-	(63,071)
Net non-operating revenues (expenses)	285,104	96,861	20	381,985
Income before capital contributions	426,905	134,310	(4,658)	556,557
Capital contributions	-	14,664	-	14,664
Change in net assets	426,905	148,974	(4,658)	571,221
Net assets - beginning	3,213,406	3,582,973	53,746	6,850,125
Net assets - ending	\$ 3,640,311	3,731,947	49,088	7,421,346

The accompanying notes are an integral  
part of these financial statements

CITY OF TREMONTON  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2006

	Utility Fund	Treatment Plant Fund	Nonmajor Fund	Total Proprietary Funds
Cash flows from operating activities:				
Receipts from customers and users	\$ 934,275	770,130	7,515	1,711,920
Payments to suppliers	(360,238)	(220,096)	(60)	(580,394)
Payments to employees	(301,509)	(284,433)	-	(585,942)
Net cash provided by operating activities	272,528	265,601	7,455	545,584
Cash flows from non-capital financing activities:				
Impact fees collected	267,928	101,407	-	369,335
Collection of due from other funds	(34,666)	-	-	(34,666)
Net cash provided by non-capital financing activities	233,262	101,407	-	334,669
Cash flows from capital and related financing activities:				
Capital contributions	-	14,664	-	14,664
Purchases of capital assets	(170,603)	(84,171)	-	(254,774)
Principal paid on capital debt	(152,974)	(59,000)	(7,000)	(218,974)
Interest and fees paid on capital debt	(34,711)	(28,359)	-	(63,070)
Net cash used in capital and related financing activities	(358,288)	(156,866)	(7,000)	(522,154)
Cash flows from investing activities:				
Interest and dividends received	51,887	23,814	-	75,701
Net cash provided by investing activities	51,887	23,814	-	75,701
Net increase in cash and cash equivalents	199,389	233,956	455	433,800
Cash and cash equivalents at beginning of year	368,093	513,928	11,120	893,141
Cash and cash equivalents at end of year	\$ 567,482	747,884	11,575	1,326,941
Shown in Statement of Net Assets as:				
Pooled cash and cash equivalents	\$ 521,266	561,562	11,575	1,094,403
Restricted cash and cash equivalents	46,216	186,322	-	232,538
	\$ 567,482	747,884	11,575	1,326,941

(continued)

The accompanying notes are an integral  
part of these financial statements

(continued)

CITY OF TREMONTON  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2006

	Utility Fund	Treatment Plant Fund	Nonmajor Fund	Total Proprietary Activities
Supplemental disclosures:				
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 141,801	37,449	(4,658)	174,592
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	156,154	234,234	11,821	402,209
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(5,705)	22,447	292	17,034
Decrease (increase) in deposits	105	-	-	105
Increase (decrease) in accounts payable	(22,090)	(1,529)	-	(23,619)
Increase (decrease) in accrued interest payable	-	-	-	-
Increase (decrease) in accrued expenses	2,000	(27,000)	-	(25,000)
Increase (decrease) in deposits due customers	263	-	-	263
Total adjustments	130,727	228,152	12,113	370,992
Net cash provided by operating activities	\$ 272,528	265,601	7,455	545,584
Non-cash transactions:				
Capital assets acquired	(192,753)	(84,171)	-	(276,924)
Capital lease obligation assumed	22,150	-	-	22,150
Net cash paid	(170,603)	(84,171)	-	(254,774)

The accompanying notes are an integral  
part of these financial statements

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 1 - Summary of Significant Accounting Policies**

The City of Tremonton, Utah (the City), operates as an incorporated governmental entity within the State of Utah. The City operates under the Council-Mayor form of government and provides the following services: public safety (police, fire and ambulance), highway and streets, sanitation, recreation, public improvements, planning and zoning, health and human services and general administrative services. In addition, the City owns and operates a water and sewer system and a sewer treatment plant.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**Financial Reporting Entity**

The City's basic financial statements include the accounts of all City operations. The accounting policies of the City conform to generally accepted accounting principles.

The City has created the Tremonton Redevelopment Agency #2 (RDA#2) and the Tremonton Redevelopment Agency #3 (RDA #3) and these entities have been determined to be blended component units of the City. The accounts of these entities have been appropriately blended into the City's financial statements in accordance with GAAP.

The City is a member of the Utah Telecommunications Open Infrastructure Agency (UTOPIA), which was created as an interlocal cooperative agreement as provided in the laws of the State of Utah. The City has determined that their investment in and involvement with UTOPIA is less than other members and, therefore, has concluded that the financial amounts of UTOPIA should not be included in these financial statements.

The City has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective government board.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

**Basic Financial Statements - Government-Wide Statements**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's public safety, highway and streets, sanitation, recreation, public improvements, planning and zoning, health and human services and general administrative services are classified as governmental activities. The City's water, sewer and sewer treatment plant services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

Governmental activities are usually financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (general, public safety, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants.

Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property or sales taxes, intergovernmental revenues, interest income, etc.). The City does not allocate indirect costs.

These government-wide statements focus more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

**Basic Financial Statements – Fund Statements**

The City's accounting system is organized on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the government establishes for accountability purposes in accordance with statutes, laws, regulations, restrictions, or specific purposes.

Separate financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on major individual funds, as defined by GASB Statement No. 34, with each displayed as a separate column. All remaining governmental and proprietary funds are aggregated and reported as non-major funds in their respective fund financial statements.

The following fund types are used by the City.

*Governmental Funds*

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City.

- The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The City's major governmental funds consist of the following:

**General Fund** - see description above.

**RDA #3** - This fund accounts for the operations of this blended component unit. The RDA builds infrastructure within City limits, promotes economic development and is entitled to collect incremental property taxes on the property within the boundaries of the RDA.

The City's nonmajor governmental funds consist of the Parks Fund and RDA #2, both which are special revenue funds and the Capital Projects Fund. The Parks Fund collects fees to improve city parks and RDA #2 accounts for this agency's operations. The Capital Projects Fund was created this year and will be used to accumulate resources for major capital purchases and improvements.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Proprietary Funds*

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings, are reported as non-operating.

- **Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The City's major enterprise funds consist of the following:

**Utility Fund** - This fund accounts for the water and sewer services provided to City residents.

**Treatment Plant Fund** - This fund accounts for the treatment of sewer products collected by the City sewer system and by the City of Garland, Utah.

The City's nonmajor enterprise fund was created to collect special assessments and make debt payments for a special improvement district.

**Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Accrual*

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Modified Accrual*

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service and compensated absences expenditures are recorded only when payment is due.

**Financial Statement Amounts**

*Cash and cash equivalents*

For the purpose of the Statement of Net Assets, the term "cash and cash equivalents" includes all demand deposit accounts, savings accounts, or other short-term, highly liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

*Interfund Receivables and Payables*

During the course of operations, transactions sometimes occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.



CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Accounts Receivable and Due From Other Governments*

Receivables consist of all revenues earned at year-end but received after year-end. Allowances for uncollectible accounts are based upon historical trends. Receivable balances for the governmental activities include sales taxes, franchise taxes, property taxes, garbage collection fees, and ambulance fees. Business-type activities report receivables for utility service fees.

*Note Receivable*

The City's note receivable relates to the sale of a housing project. The note requires a lump-sum payment at the end of the term of the note but allows interest to accrue each year. The City increases the balance of the note as interest accrues. The related revenues have been deferred in the fund financial statements because they do not meet the availability criteria. Interest revenue is recognized each year in the Statement of Activities.

*Capital Assets*

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all depreciable assets has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	30 to 50 years
Improvements other than buildings	10 to 50 years
Water and sewer lines	15 to 60 years
Equipment	3 to 20 years

GASB Statement No. 34 requires the City to report infrastructure assets. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities) etc. As provided by GASB standards, the City has elected to use the "modified approach" to account for infrastructure assets maintained by the City. Under this approach, depreciation expense is not recorded and only improvements that expand the capacity or efficiency of an infrastructure asset are capitalized. Using this approach requires the City to: 1) maintain an inventory of the assets and perform periodic condition assessments; 2) estimate each year the annual amount to maintain and preserve the assets at the condition level set by the City; and 3) document that the assets are being preserved approximately at or above the condition level set by the City.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

*Capitalized Interest*

The City capitalizes net interest costs as part of the cost of construction for proprietary capital projects when material.

*Deferred Revenues*

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable.

*Compensated Absences*

The City's policies regarding vacation time permit employees to accumulate unused vacation leave. The City's policies regarding sick leave allow employees to receive up to one-half of their accrued sick leave, limited to 45 days, as a termination benefit if they voluntarily retire or resign. The liability for these compensated absences is recorded as long-term debt in the government-wide statement for governmental activities and as accrued liabilities in the business-type activities. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds do not report a liability for compensated absences while proprietary funds report the liability as it is incurred. Compensated absences related to governmental activities are usually liquidated by the General Fund.

*Long-term Debt*

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government wide financial statements. The long-term debt consists of bonds payable, capital leases payable, notes payable, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Equity Classifications*

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets - Consists of net assets with constraints placed on the used wither by 1) external groups such as creditors, grantors or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

*Revenues*

Property taxes, franchise taxes, licenses, fees-in-lieu, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes and fees-in-lieu associated with future periods are deferred. All other revenue items are considered to be measurable and available only when the City receives cash. Grants are usually reimbursable grants and are thus recognized as revenue at the time the expenditures are made.

Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In addition, other revenues that do not result from providing services are reported as non-operating revenues.

*Expenses/Expenditures*

When an expense/expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the City's general policy to use restricted resources first.

For proprietary fund financial statements, operating expenses are those that result from providing services to customers.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**Property Tax Calendar**

Box Elder County assesses all taxable property other than centrally assessed property, which is assessed through the State, by May 22 of each year. The City must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

Note 2 - Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted by the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 2 - Deposits and Investments (continued)

At June 30, 2006, the City's deposits and investments consisted of the following:

<u>Financial Statement Description</u>	<u>Deposits</u>	<u>Investments</u>	<u>Cash</u>	<u>Total</u>
Pooled cash and cash equivalents:				
Cash on hand	\$ -	-	140	140
Demand deposits	1,663,533	-	-	1,663,533
Public Treasurer's Investment Pool	<u>-</u>	<u>130,252</u>	<u>-</u>	<u>130,252</u>
Total pooled cash and cash equivalents	\$ <u>1,663,533</u>	<u>130,252</u>	<u>140</u>	<u>1,793,925</u>
Restricted cash and cash equivalents:				
Demand deposits	\$ 11,030	35,186	-	46,216
Public Treasurer's Investment Pool	<u>-</u>	<u>186,322</u>	<u>-</u>	<u>186,322</u>
Total restricted cash and cash equivalents	\$ <u>11,030</u>	<u>221,508</u>	<u>-</u>	<u>232,538</u>
Total all deposits and investments	\$ <u>1,674,563</u>	<u>351,760</u>	<u>140</u>	<u>2,026,463</u>

**Deposits**

*Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$1,915,294 of the City's bank balances of \$2,026,323 was uninsured and uncollateralized.

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investments transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with the issuers of investment securities.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 2 - Deposits and Investments (continued)

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurers' Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionately in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006, all investments held by the City are in the PTIF, which has a maturity of less than 1 year.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all City investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 2 - Deposits and Investments (continued)

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act as previously discussed. At June 30, 2006, all investments held by the City are in the PTIF which is unrated.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial risk is to use the PTIF whenever possible. As of June 30, 2006, all of the City's investments were in the PTIF.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 3 - Accounts Receivable and Due From Other Governments

The City's accounts receivable and due from other governments at June 30, 2006, consist of:

*Governmental activities*

**Accounts receivable:**

General fund:	
Ambulance fees	\$ 126,356
Garbage	23,406
Other	15,593
Less allowance for uncollectible accounts	<u>(24,568)</u>
Total general fund	<u>140,787</u>
Redevelopment Agency #3	<u>8,415</u>
Total accounts receivable	\$ <u>149,202</u>

**Due from other governments:**

General fund:	
Property taxes - current	\$ 14,126
Property taxes - deferred to future periods	654,982
Class "C" roads	49,849
Sales tax	199,917
Other	<u>89,730</u>
Total general fund	<u>1,008,604</u>
Redevelopment Agency #3:	
Property taxes	<u>1,041,585</u>
Redevelopment Agency #2:	
Property taxes	<u>54,000</u>
Total due from other governments	\$ <u>2,104,189</u>



CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 3 - Accounts Receivable and Due From Other Governments (continued)

*Business-type activities*

**Accounts receivable:**

Utility fund:		
Utility services and fees	\$	71,275
Treatment Plant fund:		
Sewer services and fees		91,327
Nonmajor fund accounts receivable		<u>668</u>
Total accounts receivable	\$	<u>163,270</u>

Note 4 - Interfund Balances/Transfers

Interfund balances as of June 30, 2006 consisted of:

Due to/from Pooled Cash:

As a result of the pooling of cash and cash equivalents, the Redevelopment Agency #2 owed the General fund \$55,354 at June 30, 2006.

**Internal Loans:**

<u>Receivable Fund</u>		<u>Payable Fund</u>		
		<u>RDA #2</u>	<u>RDA #3</u>	<u>Total</u>
Parks	\$	26,515	-	26,515
Utility		<u>-</u>	<u>474,872</u>	<u>474,872</u>
Total	\$	<u>26,515</u>	<u>474,872</u>	<u>501,387</u>

The interfund loan to RDA #2 bears interest at 3%. The interfund loan to RDA #3 bears interest at 9%. No payments were made on loans during the year.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 5 - Capital Assets

Capital asset changes occurring for the year ended June 30, 2006, are as follows:

*Governmental activities*

	<u>July 1,</u> <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30,</u> <u>2006</u>
Capital assets not being depreciated:				
Land	\$ 646,216	-	-	646,216
Infrastructure	9,247,303	151,716		9,399,019
Construction in process	<u>2,019</u>	<u>60,000</u>	<u>-</u>	<u>62,019</u>
Total capital assets not being depreciated	<u>9,895,538</u>	<u>211,716</u>	<u>-</u>	<u>10,107,254</u>
Capital assets being depreciated:				
Buildings	707,709	123,187	-	830,896
Improvements	2,016,186	-	-	2,016,186
Equipment	<u>1,343,914</u>	<u>85,110</u>	<u>-</u>	<u>1,429,024</u>
Total capital assets being depreciated	<u>4,067,809</u>	<u>208,297</u>	<u>-</u>	<u>4,276,106</u>
Accumulated depreciation for:				
Buildings	(80,342)	(22,891)	-	(103,233)
Improvements other than buildings	(926,392)	(61,851)	-	(988,243)
Equipment and automotive	<u>(1,094,918)</u>	<u>(95,330)</u>	<u>-</u>	<u>(1,190,248)</u>
Total accumulated depreciation	<u>(2,101,652)</u>	<u>(180,072)</u>	<u>-</u>	<u>(2,281,724)</u>
Total capital assets being depreciated, net	<u>1,966,157</u>	<u>28,225</u>	<u>-</u>	<u>1,994,382</u>
Total governmental activities capital assets, net	\$ <u>11,861,695</u>	<u>239,941</u>	<u>-</u>	<u>12,101,636</u>

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 5 - Capital Assets (continued)

<i>Business-type activities</i>	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2006</u>
Capital assets not being depreciated:					
Land	\$ 55,150	-	-	-	55,150
Construction in process	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>55,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,150</u>
Capital assets being depreciated:					
Buildings	1,792,638	-	-	-	1,792,638
Equipment and vehicles	5,349,602	129,178	-	-	5,478,780
Improvements	508,074	8,415	-	-	516,489
Water and sewer lines	<u>2,378,490</u>	<u>139,330</u>	<u>(5,394)</u>	<u>-</u>	<u>2,512,426</u>
Total capital assets being depreciated	<u>10,028,804</u>	<u>276,923</u>	<u>(5,394)</u>	<u>-</u>	<u>10,300,333</u>
Accumulated depreciation for:					
Buildings	(307,031)	(47,183)	-	-	(354,214)
Equipment and vehicles	(1,516,439)	(271,596)	-	-	(1,788,035)
Improvements	(135,259)	(16,611)	-	-	(151,870)
Lines	<u>(1,248,991)</u>	<u>(66,819)</u>	<u>5,394</u>	<u>-</u>	<u>(1,310,416)</u>
Total accumulated depreciation	<u>(3,207,720)</u>	<u>(402,209)</u>	<u>5,394</u>	<u>-</u>	<u>(3,604,535)</u>
Total capital assets being depreciated, net	<u>6,821,084</u>	<u>(125,286)</u>	<u>-</u>	<u>-</u>	<u>6,695,798</u>
Total business-type activities capital assets, net	\$ <u>6,876,234</u>	<u>(125,286)</u>	<u>-</u>	<u>-</u>	<u>6,750,948</u>

Depreciation expense of governmental activities was charged to functions as follows:

General government	\$ 36,504
Streets and highways	6,799
Public safety	84,479
Culture, parks and recreation	40,833
Health and human services	<u>11,457</u>
Total depreciation expense	\$ <u>180,072</u>

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 6 - Refundable Deposits

The City requires a security deposit from customers for utility services. The deposit, reported as a liability in the Utility Fund, covers garbage pickup, water charges, and sewer services. Security deposits in the Utility Fund of \$7,512 were held by the City at June 30, 2006

Note 7 - Long-Term Liabilities

Long-term liability activity for fiscal year ending June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
<u>Governmental activities</u>					
Bonds payable	\$ 1,435,000	-	(260,000)	1,175,000	275,000
Notes payable	16,515	-	(16,515)	-	-
Compensated absences	87,000	74,000	(42,000)	119,000	42,000
Capital leases payable	<u>197,003</u>	<u>49,650</u>	<u>(100,235)</u>	<u>146,418</u>	<u>75,671</u>
Total governmental long-term liabilities	\$ <u>1,735,518</u>	<u>123,650</u>	<u>(418,750)</u>	<u>1,440,418</u>	<u>392,671</u>
<u>Business-type activities</u>					
Bonds payable	\$ 902,000	-	(95,000)	807,000	100,000
Capital leases payable	<u>496,426</u>	<u>22,150</u>	<u>(123,974)</u>	<u>394,602</u>	<u>97,675</u>
Total business-type long-term liabilities	\$ <u>1,398,426</u>	<u>22,150</u>	<u>(218,974)</u>	<u>1,201,602</u>	<u>197,675</u>

*Governmental Activities*

Governmental activities long-term debt was comprised of the following:

Bonds payable:

\$2,560,000 general obligation bonds, payable in annual installments  
ranging from \$205,000 to \$315,000 with interest from 4% to 5.55%      \$ 1,175,000

Capital leases payable:

Various capitalized leases, payable in monthly installments including  
interest ranging from 2.8% to 5.9%, secured by equipment      \$ 146,418

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 7 - Long-Term Liabilities (continued)

The annual requirements to amortize the bonds payable of the governmental activities were as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 275,000	60,065	335,065
2008	285,000	46,590	331,590
2009	300,000	32,482	332,482
2010	<u>315,000</u>	<u>17,482</u>	<u>332,482</u>
Totals	\$ <u>1,175,000</u>	<u>156,619</u>	<u>1,331,619</u>

The following is a schedule of the future minimum lease payments under the governmental activities capital leases and the present value of the net minimum lease payments at June 30, 2006:

Year Ending <u>June 30</u>	
2007	\$ 80,725
2008	55,470
2009	14,387
2010	<u>3,026</u>
Net minimum lease payments	153,608
Less amount representing interest	<u>(7,190)</u>
Present value of net minimum lease payments	\$ <u>146,418</u>

At June 30, 2006, the cost of assets financed by capital leases recorded in the governmental activities was \$370,405 and the accumulated depreciation was \$214,635.

The General Fund is generally used to liquidate governmental activities long-term liabilities.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 7 - Long-Term Liabilities (continued)

*Business-type Activities*

**Bonds Payable**

Business-type activities bonds payable were comprised of the following:

\$349,000 water revenue bonds due to Zions First National Bank in monthly installments of \$3,678 including interest at 11.22%	\$ 108,000
\$140,000 water revenue bonds due to Utah Water Resources in annual installments of \$7,000 with no interest	49,000
\$1,200,000 sewer treatment plant bonds due to State of Utah in annual installments ranging from \$40,000 to \$84,000 plus interest at 4%	<u>650,000</u>
Total business-type activities bonds payable	\$ <u>807,000</u>

The annual requirements to amortize bonds payable of the business-type activities as of June 30, 2006, were as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 100,000	38,117	138,117
2008	107,000	32,087	139,087
2009	113,000	25,488	138,488
2010	76,000	18,360	94,360
2011	79,000	15,600	94,600
2012-2015	<u>332,000</u>	<u>32,400</u>	<u>364,400</u>
Totals	\$ <u>807,000</u>	<u>162,052</u>	<u>969,052</u>

The management of the City believes that as of June 30, 2006, it was in compliance with the debt covenants of the outstanding revenue bonds.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 7 - Long-term Liabilities (continued)

**Capital Leases**

The City has entered into capital lease agreement with Zions Bank to provide financing for the construction of assets. The agreement requires that the City lease assets to Zions Bank for \$1 annually. Zions Bank subleases the assets to the City with an interest factor of 70% of the bank's prime rate. The City borrowed the maximum amount allowed per the agreement of \$790,000, which will be repaid in equal installments over the maximum duration of the agreement. The agreement can be renewed annually but has a maximum duration of ten years. The balance as of June 30, 2006 on this lease agreement is \$352,149. In addition, the City has entered into separate lease agreements with Zions Bank for a vehicle with interest at 4.65% and a balance of \$19,591 and for a mower with interest at 3.8% and a balance of \$22,862.

The following is a schedule of future minimum lease payments of business-type activities capital lease agreements in the proprietary fund types as of June 30, 2006:

Year Ending June 30	
2007	\$ 107,353
2008	107,697
2009	107,733
2010	<u>97,073</u>
Net minimum lease payments	419,856
Less amount representing interest	<u>(25,254)</u>
Present value of net minimum lease payments	\$ <u>394,602</u>

At June 30, 2006, the cost of assets financed by capital leases recorded in the business-type activities was \$741,280 and the accumulated depreciation was \$73,501.

Subsequent to year-end, the City entered into another capital lease agreement with Zions to provide funding for infrastructure, water and sewer improvements. The City awarded bids subsequent to year-end related to these improvements for approximately \$1,360,000. The City also entered into a agreements to finance the purchase of a fire truck for approximately \$720,000 and to purchase land for a new fire station.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 8 - Conduit Debt

The City has issued industrial revenue bonds in prior years to finance construction and other improvements on behalf of Safeway, Inc. and La-Z-Boy Chair, Inc. The bonds were issued under the provisions of the Utah Industrial Facilities Development Act, Utah Code Annotated Chapter 19, Title 11. As such, none of the bonds are general obligations of the City nor are any of the bonds, including interest thereon, debt or indebtedness of the City. Therefore, no liability has been recorded in these financial statements.

Note 9 - Pension Benefit Obligations

The City contributes to the following cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems): 1) Utah Public Employees Contributory Retirement, 2) Utah Public Employees Noncontributory Retirement and 3) Utah Public Safety Retirement. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes. The following briefly summarizes types of employees covered, benefit provisions, eligibility requirements and vesting for the systems participated in by the City.

- 1) Public Employees Contributory and Noncontributory - all City employees hired to a position expected to last 9 months and that work 20 or more hours per week are eligible to participate. Employees attaining age 60 to 65 with 4-20 years of credit service, or any age with 20 or more years of credited service are entitled to monthly benefits based on age, years of service credit and final average monthly salary. Matching contributions made by the City are not vested in the employee's name. All other contributions are fully vested at the time of contribution.
- 2) Public Safety Employees - all employees employed in the recognized public safety departments of the City who work 40 or more hours a week and are regularly assigned to hazardous duty are eligible to participate. Employees attaining age 60 to 65 with 4-10 years of credited service or any age with 20 or more years of credited service are entitled to monthly benefits based on years of credited service and final average monthly salary. Matching contributions made by the City are not vested in the employee's name. All other contributions are fully vested at the time of contribution.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Government



CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 9 - Pension Benefit Obligations (continued)

Noncontributory Retirement System, Public Safety Retirement System and Firefighters Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Plan members in the Local Governmental Contributory Retirement System were required to contribute 6.0% of their annual covered salary (paid by the City) and the City was required to contribute 7.08% of their annual covered salary. In the Local Governmental Noncontributory Retirement System, the City was required to contribute 11.09% of the eligible employees' annual covered salary. In the Public Safety Retirement System, contributory division members were required to contribute 12.29% of their annual covered salary (paid by the City) and the City was required to contribute 7.95% of their annual covered salary. The City was required to contribute 19.34% of the annual covered salary of noncontributory division members. The contribution rates are the actuarial determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The City's contributions for the years ended December 31, 2006, 2005, and 2004 were as follows:

A. Local Governmental System - Contributory

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Employer paid for employee contributions	\$ 1,528	1,506	1,404
Employer contributions	1,803	1,777	1,313

B. Local Governmental System - Noncontributory

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Employer contributions	\$ 89,505	83,777	68,132

C. Public Safety - Contributory

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Employer paid for employee contributions	\$ 4,208	4,085	3,965
Employer contributions	2,722	2,559	1,458

D. Public Safety - Noncontributory

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Employer contributions	\$ 49,037	47,904	50,577

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 9 - Pension Benefit Obligations (continued)

All contributions by the City were paid by the due dates or within 30 days thereafter and were equal to the required contributions for each year. The Utah State Retirement Board of the Utah Retirement Systems provides the City with the necessary retirement disclosures for this report.

The City maintains a qualified defined contribution plan under section 401(k) of the Internal Revenue Code, which is administered by the Utah Retirement Systems. Under the plan, eligible employees may elect to contribute a portion of their salary, subject to Internal Revenue Service limits. Contributions of \$79,722 and \$66,306 were made to the 401(k) plan during the years ended June 30, 2006 and 2005, respectively. Of these amounts, \$36,946 and \$24,426 were contributed by employees, and \$42,776 and \$41,880 were contributed by the City on behalf of employees, respectively.

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and is administered by the Utah Retirement Systems. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All funds are held by the Utah Retirement Systems as trustee of the plan. Contributions of \$9,792 and \$13,160 were made to the plan during the years ended June 30, 2006 and 2005, respectively. Of these amounts, \$9,792 and \$8,922 were contributed by employees, and \$-0- and \$4,238 were contributed by the City on behalf of employees, respectively.

Note 10 - Redevelopment Agency

In accordance with Section 17B-4-1305, Utah Code Annotated, all municipalities that have established Redevelopment Agencies are required to disclose the following revenues and expenditures associated with the various project areas.

	<u>RDA #2</u>	<u>RDA #3</u>
Tax increment collected	\$ 53,526	1,053,730
Balance of debt:		
City of Tremonton:		
Parks Special Revenue Fund	26,515	-
Utility Fund	-	474,872
Expenditures:		
Administrative costs	945	-
Tax increment payments	-	1,066,604
Debt service	1,263	-
Deficit fund balance	-	360,206

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 11 - Restricted Net Assets/Reserved Fund Equity

Restricted net assets and reserved fund equity represent moneys required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted net assets and reserved fund equity at June 30, 2006:

*Governmental Activities*

General Fund:

Beautification committee	\$ 13,736
RDA #2 fund balance	<u>33,091</u>
Total reserved fund balance/restricted net assets	\$ <u>46,827</u>

*Business-type Activities*

Utility Fund:

Bond retirement	\$ 46,216
Impact fees	<u>470,126</u>
Total restricted net assets	\$ <u>516,342</u>

Treatment Plant Fund

Bond retirement	\$ 186,322
Unspent impact fees assessed by Garland City	18,928
Impact fees	<u>282,951</u>
Total restricted net asset	\$ <u>488,201</u>

Total business-type restricted net assets	\$ <u>1,004,543</u>
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The City assesses impact fees for parks, water and sewer, and treatment plant improvements as allowed by State law. Impact fees in the Treatment Plant Fund represent fees assessed by the City for future capital improvements. These fees are not intended to recover impact costs for growth in areas not assessed by the City. During the fiscal year, Garland City collected impact fees and remitted those fees to the City. The unspent portion of those impact fees has been included with the restricted net assets above.

CITY OF TREMONTON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters. The City participates in the Utah Local Government Insurance Trust, a public entity risk pool to manage its risk of loss. The City pays an annual premium to the trust for its general insurance coverage. The Trust was created to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of one million dollars for each insured event. There have been no claim settlements that exceeded the City's insurance coverage for the past three years.

Note 13 - Commitments

The Tremonton Redevelopment Agency #3 has entered into an agreement to refund property tax increment collected on a property to the developer of the property. The agreement requires 100% of the tax increment to be remitted for 12 years. During fiscal year 2006, the RDA remitted \$932,225 on the agreement. In addition, during the year, the City entered into a new agreement with another developer to refund property tax increment collected in future years on a property.

Note 14 - Joint Venture in UTOPIA

As discussed previously, the City is a member of UTOPIA, which is a joint venture between the City and certain other local municipalities in the State of Utah (collectively called the Members). UTOPIA was created to determine the feasibility of and constructing an open, carrier class, and scalable telecommunications system that would provide transparent high-speed broadband, voice, video, and data access for internal use by the Members and to every home and business within the Member's boundaries on a wholesale basis. The City has no on-going responsibility to fund the operations of UTOPIA. However, the City is entitled to receive a share of any revenues in excess of those needed to properly administer UTOPIA, as determined by the Board of Directors of UTOPIA. According to the terms of the interlocal agreement, UTOPIA shall remain a separate legal entity so long as there are any outstanding bonds. UTOPIA issues separate financial statements which can be obtained from its offices in West Valley, Utah.

UTOPIA has issued revenue bonds which are partially guaranteed by the sales tax revenues of the Members. The City's portion of the guarantee is limited to approximately \$141,000 per year through fiscal year 2016. The City has contracted with RDA #2 and RDA #3 to use property tax increment to reimburse the City's General Fund if the City is required to pay the guarantee.

## **Required Supplementary Information**

CITY OF TREMONTON  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
For The Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
Revenues:				
Taxes	\$ 1,995,060	2,287,720	2,458,359	170,639
Licenses and permits	78,950	122,845	136,786	13,941
Intergovernmental	431,690	666,555	549,471	(117,084)
Charges for services	712,240	750,290	658,427	(91,863)
Fines and forfeitures	136,160	130,240	148,732	18,492
Library	7,065	21,690	10,340	(11,350)
Miscellaneous	54,270	126,660	75,316	(51,344)
Total revenues	3,415,435	4,106,000	4,037,431	(68,569)
Expenditures:				
General government	487,680	555,715	475,104	80,611
Public safety	1,312,225	1,543,595	1,379,362	164,233
Streets/highways	804,275	1,043,870	807,087	236,783
Sanitation	172,000	176,680	179,011	(2,331)
Cultural, parks and recreation	480,135	700,870	511,709	189,161
Health and human services	235,645	301,310	273,039	28,271
Total expenditures	3,491,960	4,322,040	3,625,312	696,728
Deficiency of revenues over expenditures	(76,525)	(216,040)	412,119	628,159
Other financing sources				
Transfer in from RDA #3	216,525	216,525	-	(216,525)
Transfer to capital project fund	-	(426,000)	(426,000)	-
Transfer to parks fund	(100,000)	(80,000)	(35,361)	44,639
Proceeds from capital lease	-	58,500	49,650	(8,850)
Net other financing sources	116,525	(230,975)	(411,711)	(180,736)
Change in fund balance	\$ 40,000	(447,015)	408	447,423
Fund balance - July 1			664,086	
Fund balance - June 30	\$		664,494	

CITY OF TREMONTON  
RDA #3 BLENDED COMPONENT UNIT  
BUDGETARY COMPARISON SCHEDULE  
For The Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 896,475	1,365,000	1,053,730	(311,270)
Miscellaneous	-	35,000	-	(35,000)
Total revenues	896,475	1,400,000	1,053,730	(346,270)
Expenditures:				
General government	587,930	1,316,750	1,066,604	(250,146)
Debt service	92,020	83,250	-	(83,250)
Total expenditures	679,950	1,400,000	1,066,604	(333,396)
Excess of revenues over expenditures	216,525	-	(12,874)	(12,874)
Other financing uses:				
Transfer to general fund	(216,525)	-	-	-
Change in fund balance - budget basis	\$ -	-	(12,874)	(12,874)
Adjustments from budget basis to GAAP basis:				
Interest expense			(34,666)	
Deposit with Utopia			103,365	
Change in fund balance - GAAP basis			55,825	

CITY OF TREMONTON  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY REPORTING  
June 30, 2006

**Budget Presentation**

A Budgetary Comparison Schedule is presented for the General Fund and each major special revenue fund as required by generally accepted accounting principles (GAAP). Budgets for governmental funds are adopted on a legally enacted basis. The legally enacted basis differs from a GAAP basis budget by including interfund loan payments as expenditures.

Annual appropriated budgets are adopted for all governmental and business-type funds. All annual appropriations lapse at fiscal year end. Each fund adopts a "balanced budget" in accordance with State law. As allowed by State law, the City Council may authorize increases to or uses of unreserved fund balances. In the budget presentations, authorized increases to fund balance are shown as positive changes in fund balance and authorized decreases are shown as negative changes in fund balance.

**Budget Adoption and Monitoring**

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officers so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review at the first scheduled meeting in May. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. The City financial officer must, within the revenues and reserves, estimate any changes in the budget as available or revenue estimates may be changed by an affirmative vote of a majority of the City Council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22, and adoption of budgets is done similarly.

State statute requires that City officers shall not incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Only the Council at a properly advertised public hearing can make increases in total fund appropriations. The final budget information presented is after all approved amendments.



**CITY OF TREMONTON**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2006**

**Information About Infrastructure Assets Reported Using the Modified Approach**

As allowed by GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis – for State and Local Governments*, Tremonton City Corp. has adopted an alternative to reporting depreciation on streets, bridges, sidewalks, curb and gutters, and alleyways (infrastructure assets) maintained by the Tremonton City Public Works Department. Under this alternative method, referred to as the "modified approach", infrastructure assets are not depreciated, and maintenance and preservation costs are expensed.

In order to utilize the modified approach, Tremonton City is required to:

- 1) Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- 2) Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.
- 3) Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by Tremonton City.
- 4) Document that the infrastructure assets are being preserved approximately at, or above the condition level established by Tremonton City.

*Streets*

Tremonton City Public Works Department uses the T2 Pavement Management System to determine the Remaining Surface Life (RSL) of the 30.59 miles of city streets. The assessment is based on the RSL on a 1 to 8 scale, with 8 representing new or nearly new pavement with a RSL of 19 – 21 years.

Rating	RSL	Description
1	0	Poor Condition, No life left. Street needs reconstructed through Replaced/Rebuild.
2	1 – 3	Poor Condition, 1 – 3 years life left. Street needs reconstructed through Rebuild.
3	4 – 6	Poor Condition, 4 – 6 years life left. Street needs reconstructed through Rotomill & Thick Overlay.
4	7 – 9	Fair Condition, 7 – 9 years life left. Street needs rehabilitation through Rotomill & Thin Overlay.
5	10 – 12	Good Condition, 10 – 12 years life left. Street needs routine Patch.
6	13 – 15	Very Good Condition, 13 – 15 years life left. Street needs Seal Coat, Chip Seal or Slurry Seal Applied.
7	16 – 18	Very Good Condition, 16 – 18 years life left. Street needs Seal Coat, Chip Seal or Slurry Seal Applied.
8	19 - 21	Excellent Condition, 19 – 21 years life left. Street needs no repairs.

Condition Level

Tremonton City's established condition level is to maintain 30 percent of its streets with a rating of 5 or greater and no more than 70 percent of streets with a rating of less than 4. The condition level chosen assumes that when the Road Bond is fully paid off, in the year 2010, that the amount allocated for principle and interest payments will be allocated to road projects, along with the current funds that are being spent on road repairs and maintenance.

**CITY OF TREMONTON**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2006**

Tremonton City performs complete assessments on an every three year basis. The following table reports the results of the most recent street assessments:

<b>Percent Remaining Street Life Per Year</b>		
<b>Rating</b>	<b>2003</b>	<b>2004</b>
1	2.23	2.95
2	2.17	6.39
3	14.83	11.69
4	5.4	8.21
5	13.84	16.9
6	23.02	24.99
7	28.94	22.49
8	9.58	6.39
<b>Avg. RSL</b>	<b>12.8</b>	<b>11.83</b>

The following table presents the City's estimated amounts needed to maintain and preserve roads at or above the established condition levels addressed above, and the amounts actually spent for each of the past five reporting periods.

<b>Fiscal Year</b>	<b>Estimated Spending</b>	<b>Actual Spending</b>
2001-2002	\$ 1,344,175	\$ 1,166,109
2002-2003	\$ 85,000	\$ 87,000
2003-2004	\$ 90,690	\$ 90,800
2004-2005	\$ 86,310	\$ 78,795
2005-2006	\$ 150,465	\$127,731

***Bridges***

Tremonton City use the Structures Inventory & Appraisal System, conducted on an every two-year basis, by the Utah Department of Transportation (UDOT), on the 4 bridges owned by Tremonton City. A number ranging from 1 to 100, is calculated based on condition, geometry, functional use, safety, and other factors. Three categories of conditions are established in relation to the number range as follows:

<b>Rating</b>	<b>Category</b>	<b>Range</b>	<b>Description</b>
1	Poor	1 – 33	Serious Structural Problems, Bridge Not Safe, Closed Until Repaired
2	Fair	34 – 67	Some Structural Problems, Notified of a Recommended Time-Frame for Bridge Replacement
3	Good	68 – 100	No Major Structural Problems, Bridge in Good Repair

**Condition Level**

Tremonton City's established condition level is to maintain 75 percent of its bridges with a rating of 3 or greater and no more than 25 percent of bridges with a rating of less than or equal to a 2.

**CITY OF TREMONTON**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2006**

The following table reports the results of the bridges assessment:

Percentage Condition of Bridges		
Rating	2000	2002
1	0	0
2	0	0
3	100	100

The following table presents the City's estimated amounts needed to maintain and preserve bridges at or above the established condition levels addressed above, and the amounts actually spent for each of the past five reporting periods.

Fiscal Year	Estimated Spending	Actual Spending
2001-2002	-	-
2002-2003	-	-
2003-2004	-	-
2004-2005	-	-
2005-2006	-	-

**Sidewalks**

Tremonton City uses a sidewalk inventory system conducted by the Public Works Department. The Public Works Department will conduct a sidewalk inventory on an every three-year basis. The inventory and evaluation system is based on type of traffic area and trip hazard assessment. A numbering system ranging from 1 to 4 is in the calculation as to which sidewalks, of the approximate 200,000 linear feet, that may need repaired or replaced first, these are determined on traffic area, HTA – High Traffic Area and STA – Standard Traffic Area. Four categories of conditions are established in relation to the number range as follows:

Rating	Category	Hazard	Description
1	Very Poor	> 2"	High Priority, sidewalk needs replaced.
2	Poor	½" to 2"	Medium Priority, sidewalk needs to be replaced or trip hazards removed in a timely manner.
3	Fair	< ½"	Low Priority, sidewalk needs trip hazards removed as time permits.
4	Good	None	No apparent trip hazards, sidewalks are like new, with no trip hazards.

**Condition Level**

Tremonton City's established condition level is to maintain 80 percent of its sidewalks with a rating of 4 or greater and no more than 20 percent of sidewalks with a rating of less than or equal to a 3.

The following table reports the results of the sidewalks assessed for the past 3 years:

Percentage Condition of Sidewalks		
Rating	2003	Feet
1	1	2,000'
2	2	4,000'
3	1	2,000'
4	96	192,000'

**CITY OF TREMONTON**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2006**

The following table presents the City's estimated amounts needed to maintain and preserve sidewalks at or above the established condition levels addressed above, and the amounts actually spent for each of the past five reporting periods.

<b>Fiscal Year</b>	<b>Estimated Spending</b>	<b>Actual Spending</b>
2001-2002	-	\$ 1,500
2003-2002	-	\$ 1,000
2004-2003	-	\$ 2,500
2005-2004	-	\$ 1,500
2006-2005	-	-

***Curb and Gutter***

Tremonton City uses a curb and gutter inventory system conducted by the Public Works Department. The Public Works Department will conduct a curb and gutter inventory on an every three-year basis. A numbering system of 1 to 2 is used in the evaluation of the approximate 200,000 linear feet of curb and gutter. The inventory and evaluation system is based on condition and drainage assessment. A numbering system of 1 to 2 is used in the evaluation. The inventory and evaluation system is based on condition and drainage assessment. Two categories of conditions are established in relation to the number range as follows:

<b>Rating</b>	<b>Category</b>	<b>Description</b>
1	Poor	Curb & gutter broken up and drainage is poor to the extent that it may cause road failure.
2	Good	Curb & gutter may be broken but drainage is not a problem.

**Condition Level**

Tremonton City's established condition level is to maintain 80 percent of its curbs & gutters with a rating of 2 and no more than 20 percent of curbs and gutters with a rating of 1.

The following table reports the results of the curb and gutters assessed for the past 3 years:

<b>Percentage Condition of Curbs &amp; Gutters</b>		
<b>Rating</b>	<b>2003</b>	<b>Feet</b>
1	1.5	2,500'
2	98.5	197,500'

The following table presents the City's estimated amounts needed to maintain and preserve curbs and gutters at or above the established condition levels addressed above, and the amounts actually spent for each of the past five reporting periods.

<b>Fiscal Year</b>	<b>Estimated Spending</b>	<b>Actual Spending</b>
2001-2002	-	\$ 8,500
2002-2003	-	\$ 7,200
2003-2004	-	-
2004-2005	-	-
2005-2006	-	-

**CITY OF TREMONTON**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2006**

*Alleys*

Tremonton City uses an alley inventory system conducted by the Public Works Department, to evaluate its approximate 3.5 miles of alleys. The Public Works Department will conduct an alley inventory on an every three-year basis. A numbering system of 1 to 2 is used in the evaluation. The inventory and evaluation system is based on the condition of the alleyway, such as holes, debris and remaining surface material. Two categories of conditions are established in relation to the number range as follows:

Rating	Category	Description
1	Poor	Large amount of holes, excesses amount of debris, and large portions of the surface material missing.
2	Good	Very few holes, alleys are free of debris, and the surface material is in good shape.

Condition Level

Tremonton City's established condition level is to maintain **80** percent of its alleys with a rating of **2** and no more than **20** percent of alleys with a rating of **1**.

The following table reports the results of the alleys assessed for the past 3 years:

Percentage Condition of Alleys	
Rating	2003
1	0
2	100

The following table presents the City's estimated amounts needed to maintain and preserve alleys at or above the established condition levels addressed above, and the amounts actually spent for each of the past five reporting periods.

Fiscal Year	Estimated Spending	Actual Spending
2001-2002	-	-
2002-2003	-	-
2003-2004	-	-
2004-2005	-	-
2005-2006	-	-

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## **Supplementary Information**

CITY OF TREMONTON  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
For The Year Ended June 30, 2006  
(With comparative Totals for the Year Ended June 30, 2005)

	2006			
	Final Budget	Actual	Variance Favorable (Unfavorable)	2005 Actual
Revenues:				
Taxes:				
General property taxes	\$ 618,000	623,736	5,736	539,501
Fee in lieu of property taxes	100,000	115,349	15,349	107,546
Sales and use taxes	899,080	1,033,319	134,239	923,831
Franchise taxes	670,640	685,955	15,315	568,621
Total taxes	2,287,720	2,458,359	170,639	2,139,499
Licenses and permits:				
Business licenses and permits	26,195	22,900	(3,295)	21,769
Non-business licenses and permits	96,650	113,886	17,236	63,941
Total licenses and permits	122,845	136,786	13,941	85,710
Intergovernmental:				
Class "C" roads	232,400	236,624	4,224	202,585
BRAG/Senior Citizens	197,275	157,520	(39,755)	142,629
Fire standby fees	23,410	21,611	(1,799)	10,219
Liquor allotment	7,260	6,049	(1,211)	5,256
EMS grant	7,770	11,172	3,402	23,699
Other	198,440	116,495	(81,945)	-
Total intergovernmental	666,555	549,471	(117,084)	384,388
Charges for services:				
Sanitation	184,240	190,828	6,588	180,652
Ambulance	336,190	344,204	8,014	319,244
Cemetery	14,470	13,022	(1,448)	20,920
Recreation	208,005	103,204	(104,801)	98,129
Other	7,385	7,169	(216)	7,239
Total charges for services	750,290	658,427	(91,863)	626,184
Fine and forfeitures	130,240	148,732	18,492	140,650
Library:				
Grants	6,810	5,681	(1,129)	3,665
Other	14,880	4,659	(10,221)	16,177
Total library	21,690	10,340	(11,350)	19,842

(continued)



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CITY OF TREMONTON  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
For The Year Ended June 30, 2006  
(With comparative Totals for the Year Ended June 30, 2005)

	2006			
	Final Budget	Actual	Variance Favorable (Unfavorable)	2005 Actual
Miscellaneous revenues:	\$			
Interest	17,615	20,834	3,219	10,802
Rent	5,260	4,075	(1,185)	3,900
Donations	35,575	19,741	(15,834)	8,943
Other	68,210	30,666	(37,544)	23,668
Total miscellaneous	126,660	75,316	(51,344)	47,313
Total revenues	4,106,000	4,037,431	(68,569)	3,443,586
Expenditures:				
General government:				
City council	113,215	91,334	21,881	69,041
Court	70,260	70,211	49	65,209
City manager	57,050	56,298	752	50,168
Treasurer	30,905	30,928	(23)	30,597
Recorder	37,210	29,047	8,163	28,712
Professional	22,980	22,965	15	14,333
Election	4,395	3,567	828	-
Civic center	43,705	33,773	9,932	32,645
Planning and zoning	29,710	20,859	8,851	15,466
Non-departmental	146,285	116,122	30,163	125,026
Total general government	555,715	475,104	80,611	431,197
Public safety:				
Liquor law enforcement	6,870	6,853	17	5,472
Police department	917,265	828,381	88,884	780,914
Fire department	545,315	470,198	75,117	467,902
Building inspection	74,145	73,930	215	72,496
Total public safety	1,543,595	1,379,362	164,233	1,326,784
Streets/highways:				
Streets department	571,760	455,279	116,481	251,839
Debt service	400,110	333,425	66,685	333,425
Class "C" roads	72,000	18,383	53,617	89,120
Total streets/highways	1,043,870	807,087	236,783	674,384
Sanitation	176,680	179,011	(2,331)	155,784

(continued)

CITY OF TREMONTON  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
For The Year Ended June 30, 2006  
(With comparative Totals for the Year Ended June 30, 2005)

	2006			
	Final Budget	Actual	Variance Favorable (Unfavorable)	2005 Actual
Cultural, parks and recreation:				
Parks and recreation	479,025	336,434	142,591	326,537
Golf course	1,445	703	742	737
Cemetery	55,710	40,644	15,066	19,516
Community events	37,745	20,602	17,143	49,399
Library	126,945	113,326	13,619	268,436
Total parks and recreation	700,870	511,709	189,161	664,625
Health and human services:				
Community service	79,270	77,927	1,343	61,108
Congregate meals	51,385	48,825	2,560	45,315
Home delivered meals	62,355	60,210	2,145	62,250
Senior building	83,855	62,493	21,362	42,707
Food pantry	24,445	23,584	861	26,545
Total health and human services	301,310	273,039	28,271	237,925
Total expenditures	4,322,040	3,625,312	696,728	3,490,699
Deficiency of revenues over expenditures	(216,040)	412,119	628,159	(47,113)
Other financing sources (uses):				
Transfer in from RDA #3	216,525	-	(216,525)	46,225
Transfer to capital projects fund	(426,000)	(426,000)	-	-
Transfer to parks fund	(80,000)	(35,361)	44,639	-
Proceeds from capital lease	58,500	49,650	(8,850)	108,842
Total other financing sources (uses)	(230,975)	(411,711)	(180,736)	155,067
Change in fund balance	\$ (447,015)	408	447,423	107,954
Fund balance - July 1		664,086		556,132
Fund balance - June 30	\$	664,494		664,086

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CITY OF TREMONTON  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2006

		<u>Special Revenue</u>		<u>Total Nonmajor</u>
		<u>Redevelopment</u>	<u>Capital</u>	<u>Governmental</u>
		<u>Parks</u>	<u>Agency #2</u>	<u>Projects</u>
				<u>Funds</u>
<u>Assets</u>				
Pooled cash and cash equivalents	\$	54,257	-	426,000
Due from other governments		-	54,000	-
Deposit with Utopia		-	118,402	-
Due from other funds		26,515	-	-
Total assets	\$	80,772	172,402	426,000
<u>Liabilities and fund balances</u>				
Liabilities:				
Due to pooled cash	\$	-	55,354	-
Accounts payable		879	3,442	-
Due to other funds		-	26,515	-
Deferred revenue		-	54,000	-
Total liabilities		879	139,311	-
Fund balance:				
Unreserved - Undesignated		79,893	33,091	426,000
Total fund balance		79,893	33,091	426,000
Total liabilities and fund balance	\$	80,772	172,402	426,000

CITY OF TREMONTON  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2006

	<u>Parks</u>	<u>Redevelopment Agency # 2</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
Taxes - property	\$ -	53,526	-	53,526
Interest	3,079	-	-	3,079
Donations	53,314	-	-	53,314
Charges for services	30,690	-	-	30,690
Total revenues	<u>87,083</u>	<u>53,526</u>	<u>-</u>	<u>140,609</u>
Expenditures:				
General government	-	945	-	945
Interest	-	1,263	-	1,263
Capital Projects	<u>120,648</u>	<u>-</u>	<u>-</u>	<u>120,648</u>
Total expenditures	<u>120,648</u>	<u>2,208</u>	<u>-</u>	<u>122,856</u>
Excess of revenues over expenditures	(33,565)	51,318	-	17,753
Other financing sources:				
Transfer in from general fund	<u>35,361</u>	<u>-</u>	<u>426,000</u>	<u>461,361</u>
Change in fund balance	1,796	51,318	426,000	479,114
Fund balance (deficit) - July 1	<u>78,097</u>	<u>(18,227)</u>	<u>-</u>	<u>59,870</u>
Fund balance - June 30	<u>\$ 79,893</u>	<u>33,091</u>	<u>426,000</u>	<u>538,984</u>

CITY OF TREMONTON  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
PARKS SPECIAL REVENUE FUND  
For the Year Ended June 30, 2006  
(With comparative Totals for the Year Ended June 30, 2005)

	<u>2006</u>		<u>Variance</u>	<u>2005</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual</u>
Revenues:				
Impact fees	\$ 32,105	30,690	(1,415)	15,840
Donations	223,675	53,314	(170,361)	-
Interest	1,850	3,079	1,229	2,325
Total revenues	<u>257,630</u>	<u>87,083</u>	<u>(170,547)</u>	<u>18,165</u>
Expenditures:				
Capital projects	<u>409,635</u>	<u>120,648</u>	<u>288,987</u>	<u>-</u>
Total expenditures	<u>409,635</u>	<u>120,648</u>	<u>288,987</u>	<u>-</u>
Excess of revenue over expenditures	\$ <u>(152,005)</u>	<u>(33,565)</u>	<u>118,440</u>	<u>18,165</u>
Other financing sources:				
Transfer in from general fund	<u>96,000</u>	<u>35,361</u>	<u>(60,639)</u>	<u>-</u>
Total other financing sources	<u>96,000</u>	<u>35,361</u>	<u>(60,639)</u>	<u>-</u>
Change in fund balance - budget basis	\$ <u><u>(56,005)</u></u>	<u><u>1,796</u></u>	<u><u>57,801</u></u>	<u><u>18,165</u></u>

CITY OF TREMONTON  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
REDEVELOPMENT AGENCY #2  
For the Year Ended June 30, 2006  
(With comparative Totals for the Year Ended June 30, 2005)

	<u>2006</u>		<u>Variance</u>	<u>2005</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual</u>
Revenues:				
Taxes - property	\$ 54,460	53,526	(934)	54,458
Miscellaneous	-	-	-	779
Total revenues	<u>54,460</u>	<u>53,526</u>	<u>(934)</u>	<u>55,237</u>
Expenditures:				
General government	54,460	53,526	934	52,032
Debt service	-	-	-	2,426
Interest	-	-	-	-
Total expenditures	<u>54,460</u>	<u>53,526</u>	<u>934</u>	<u>54,458</u>
Excess of revenue over expenditures	-	-	-	779
Change in fund balance - budget basis	\$ <u>-</u>	-	<u>-</u>	779
Adjustments from budget basis to GAAP basis:				
Interest expense		(1,263)		(1,203)
Deposit with Utopia		<u>52,581</u>		<u>49,496</u>
Change in fund balance - GAAP basis		<u>51,318</u>		<u>49,072</u>

CITY OF TREMONTON  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
CAPITAL PROJECTS SPECIAL REVENUE FUND  
For the Year Ended June 30, 2006  
(With comparative Totals for the Year Ended June 30, 2005)

	<u>2006</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2005 Actual</u>
Revenues:				
Impact fees	\$ -	-	-	-
Donations	-	-	-	-
Interest	-	-	-	-
Total revenues	-	-	-	-
Expenditures:				
Capital projects	426,000	-	426,000	-
Total expenditures	426,000	-	426,000	-
Excess of revenue over expenditures	\$ (426,000)	-	426,000	-
Other financing sources:				
Transfer in from general fund	-	426,000	426,000	-
Total other financing sources	-	426,000	426,000	-
Change in fund balance - budget basis	\$ (426,000)	426,000	852,000	-



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CITY OF TREMONTON  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
UTILITY FUND  
For The Year Ended June 30, 2006

	Water Department		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water services	\$ 762,325	786,572	24,247
Water connection fees	17,210	20,547	3,337
Sewer service	-	-	-
Sewer connection fees	-	-	-
Miscellaneous	120,245	29,462	(90,783)
Total operating revenues	899,780	836,581	(63,199)
Operating expenses:			
Salaries and benefits	262,500	259,925	2,575
Current expenses	331,275	298,158	33,117
Depreciation	84,000	136,947	(52,947)
Total operating expenses	677,775	695,030	(17,255)
Operating income (loss)	222,005	141,551	(80,454)
Non-operating income (expense):			
Impact fees	239,155	256,010	16,855
Interest income	13,735	51,887	38,152
Net income before capital income (expenses)	474,895	449,448	(25,447)
Capital budget income (expenses):			
Debt service payments	(224,185)	(187,685)	36,500
Interfund loan	92,020	-	(92,020)
Equipment and improvements	(327,270)	(178,983)	148,287
Total capital budget income (expenses)	(459,435)	(366,668)	92,767
Change in net assets - budget basis	\$ 15,460	82,780	67,320
Adjustments from budget basis to GAAP basis:			
Equipment and improvements		178,983	
Principal payments on debt		152,974	
Change in net assets - GAAP basis	\$	414,737	

Sewer Department			Total Utility Fund		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
-	-	-	762,325	786,572	24,247
-	-	-	17,210	20,547	3,337
95,125	96,844	1,719	95,125	96,844	1,719
5,100	5,700	600	5,100	5,700	600
1,865	750	(1,115)	122,110	30,212	(91,898)
102,090	103,294	1,204	1,001,870	939,875	(61,995)
43,290	43,584	(294)	305,790	303,509	2,281
47,985	40,253	7,732	379,260	338,411	40,849
21,755	19,207	2,548	105,755	156,154	(50,399)
113,030	103,044	9,986	790,805	798,074	(7,269)
(10,940)	250	11,190	211,065	141,801	(69,264)
9,195	11,918	2,723	248,350	267,928	19,578
-	-	-	13,735	51,887	38,152
(1,745)	12,168	13,913	473,150	461,616	(11,534)
-	-	-	(224,185)	(187,685)	36,500
-	-	-	92,020	-	(92,020)
(16,705)	(13,770)	2,935	(343,975)	(192,753)	151,222
(16,705)	(13,770)	2,935	(476,140)	(380,438)	95,702
(18,450)	(1,602)	16,848	(2,990)	81,178	84,168
	13,770			192,753	
	-			152,974	
	12,168			426,905	

CITY OF TREMONTON  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
SPECIAL IMPROVEMENT DISTRICT FUND  
For the Year Ended June 30, 2006  
(With comparative Totals for the Year Ended June 30, 2005)

	2006		Variance	2005
	Budget	Actual	Favorable (Unfavorable)	Actual
Operating revenues:				
Services	\$ 7,000	7,203	203	6,899
Miscellaneous income	50	20	(30)	29
Total operating revenues	7,050	7,223	173	6,928
Operating expenses:				
Current expenses	50	-	50	-
Total operating expenses	50	-	50	-
Net income before capital expenses	7,000	7,223	223	6,928
Capital budget expenses:				
Bond payments	(7,000)	(7,060)	(60)	(7,060)
Total capital budget expenses	(7,000)	(7,060)	-	(7,060)
Net change in net assets - budget basis	\$ -	163	223	(132)
Adjustments from budget basis to GAAP basis:				
Depreciation	\$	(11,821)		(11,820)
Principal on bond payments		7,000		7,000
Net change in net assets - GAAP basis	\$	(4,658)		(4,952)

CITY OF TREMONTON  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
TREATMENT PLANT FUND  
For the Year Ended June 30, 2006  
(With comparative Totals for the Year Ended June 30, 2005)

	2006		Variance	2005
	Budget	Actual	Favorable (Unfavorable)	Actual
Operating revenues:				
Services	\$ 767,075	747,683	(19,392)	690,600
Total operating revenues	767,075	747,683	(19,392)	690,600
Operating expenses:				
Salaries and benefits	297,090	257,433	39,657	269,455
Current expenses	252,395	218,567	33,828	186,217
Depreciation	95,000	234,234	(139,234)	203,437
Total operating expenses	644,485	710,234	(65,749)	659,109
Operating income (loss)	122,590	37,449	(85,141)	31,491
Non-operating income (expense):				
Capital donations	17,600	14,664	(2,936)	9,024
Impact fees	95,530	101,407	5,877	54,144
Interest income	17,755	23,814	6,059	9,086
Interest expense	(34,030)	(28,360)	5,670	(28,473)
Income before capital expenses	219,445	148,974	(70,471)	75,272
Capital budget expenses:				
Equipment and improvements	(219,720)	(84,171)	135,549	(286,162)
Principal payments on debt	(70,800)	(59,000)	11,800	(57,000)
Total capital budget expenses	(290,520)	(143,171)	147,349	(343,162)
Change in net assets - budget basis	\$ (71,075)	5,803	76,878	(267,890)
Adjustments from budget basis to GAAP basis:				
Equipment and improvements		84,171		286,162
Principal payments on debt		59,000		57,000
Change in net assets - GAAP basis	\$	148,974		75,272

CITY OF TREMONTON  
SCHEDULE OF LONG-TERM LIABILITIES  
GOVERNMENTAL FUNDS  
June 30, 2006

Year	Capital Leases												Total	
	Fire Pumper		Animal Control and Two Police Cars		2004 Ambulance		Chevy Impala		2006 Chevy Silverado		2005 Crown Victoria			Capital Leases
	Prin.	Int.	Prin.	Int.	Prin.	Int.	Prin.	Int.	Prin.	Int.	Prin.	Int.		
2007	\$ 20,951	1,431	11,130	465	22,142	1,350	7,101	264	5,292	761	9,054	784	75,670	5,055
2008	12,150	253	-	-	22,886	606	3,646	38	5,531	522	9,484	354	53,697	1,773
2009	-	-	-	-	5,841	32	-	-	5,781	272	2,442	19	14,064	323
2010	-	-	-	-	-	-	-	-	2,987	39	-	-	2,987	39
Total	\$ 33,101	1,684	11,130	465	50,869	1,988	10,747	302	19,591	1,594	20,980	1,157	146,418	7,190

Year	\$2,560,000		Total Bonds and Notes		Capital Leases		Total	
	Gen. Obl. Bond		Total Bonds and Notes		Capital Leases		All Debt	
	Prin.	Int.	Prin.	Int.	Prin.	Int.	Prin.	Int.
2007	\$ 275,000	60,065	275,000	60,065	75,670	5,055	350,670	65,120
2008	285,000	46,590	285,000	46,590	53,697	1,773	338,697	48,363
2009	300,000	32,482	300,000	32,482	14,064	323	314,064	32,805
2010	315,000	17,482	315,000	17,482	2,987	39	317,987	17,521
Total	\$ 1,175,000	156,619	1,175,000	156,619	146,418	7,190	1,321,418	163,809

**CITY OF TREMONTON**  
**SCHEDULE OF LONG-TERM LIABILITIES**  
**ENTERPRISE FUNDS**  
**June 30, 2006**

Year	Bonds Payable						Total	
	\$349,000		\$140,000		\$1,186,000		Bonds Payable	
	Water Rev Bond		Water Rev Bond		Treatment Plant			
	Prin.	Int.	Prin.	Int.	Prin.	Int.	Prin.	Int.
2007 \$	32,000	12,117	7,000	-	61,000	26,000	100,000	38,117
2008	36,000	8,527	7,000	-	64,000	23,560	107,000	32,087
2009	40,000	4,488	7,000	-	66,000	21,000	113,000	25,488
2010	-	-	7,000	-	69,000	18,360	76,000	18,360
2011	-	-	7,000	-	72,000	15,600	79,000	15,600
2012	-	-	7,000	-	75,000	12,720	82,000	12,720
2013	-	-	7,000	-	78,000	9,720	85,000	9,720
2014	-	-	-	-	81,000	6,600	81,000	6,600
2015	-	-	-	-	84,000	3,360	84,000	3,360
<b>Total \$</b>	<b>108,000</b>	<b>25,132</b>	<b>49,000</b>	<b>-</b>	<b>650,000</b>	<b>136,920</b>	<b>807,000</b>	<b>162,052</b>

Year	Capital Leases						Total	
	Mowing Tractor		Zions		Zions		Capital Leases	
	Prin.	Int.	Capital Lease	Int.	2006 Chevy Silverado	Int.	Prin.	Int.
2007 \$	8,041	730	84,342	8,187	5,292	761	97,675	9,678
2008	8,352	419	87,100	5,773	5,531	522	100,983	6,714
2009	6,469	103	89,950	5,158	5,781	272	102,200	5,533
2010	-	-	90,757	3,290	2,987	39	93,744	3,329
<b>Total \$</b>	<b>22,862</b>	<b>1,252</b>	<b>352,149</b>	<b>22,408</b>	<b>19,591</b>	<b>1,594</b>	<b>394,602</b>	<b>25,254</b>

CITY OF TREMONTON  
SUPPLEMENTAL UTILITY AND INSURANCE INFORMATION  
June 30, 2006

Utility Users and Rates

Tremonton City utility fund services both residential and non-residential users. As of June 30, 2006 there were the following users:

	<u>Water</u>	<u>Sewer</u>
Residential	2,098	
Non-residential	<u>295</u>	
Total	<u>2,393</u>	<u>2,154</u>

Water rates:

The monthly rate charged to residents for water as of June 30, 2006 is as follows:

12,800 gallons	\$ 13.00 per month
12,801 and over	\$ 1.13 per 1000 gallons

Industrial charges will be by agreement between the City and user. Non-residents will be charged twice the resident rate.

Sewer rates:

The monthly rate charged to residents for sewer is \$22.05 per month. Industrial charges will be by agreement between the City and user. Overage charges are \$.75 per 1,000 gallons over 12,800 gallons used.

Insurance and bond coverage

The City has insurance and bonding policies with effective limits as follows:

<u>Description date</u>	<u>Issuer</u>	<u>Number</u>	<u>Policy Limits</u>	<u>Expiration</u>
Insurance:				
Comprehensive general liability (no auto deductible)	Utah Local Govt. Trust	TGL-134	\$ 2,000,000	Continuous
Buildings and Contents, Contractor equipment (\$1,000 ded.)	Utah Local Govt. Trust	PX809764	\$ 9,932,300	Continuous

Bonds:

Employee	Utah Local Govt. Trust	69432027	\$ 30,000	3/15/07
Treasurer	Utah Local Govt. Trust	69432034	\$ 450,000	3/15/07



TREMONTON CITY  
SUPPLEMENTAL IMPACT FEE  
INFORMATION  
June 30, 2006

Impact Fees Collected

The following schedule details the unspent impact fee funds by year in which they were received.

	<u>Park Impact Fees</u>	<u>Water Impact Fees</u>	<u>Sewer Impact Fees</u>	<u>Wastewater Impact Fees</u>
2003	-	-	-	25,570
2004	-	81,628	10,328	96,586
2005	-	89,210	7,032	54,144
2006	-	270,010	11,918	125,580
Total unspent impact fees	-	440,848	29,278	301,880

Planned uses for unspent impact fees

2000 West waterline	-	299,260	341,324	-
Improvements to plant	-	-	-	700,000

Projected schedule for expenditure

2007	-	200,000	29,278	-
2008	-	240,848	-	301,880

Other Information

Tremonton City collects park impact fees to fund the development of parks within the City. As of June 30, 2006, the City had spent \$269,940 more than had been collected in impact fees. The City anticipates that future impact fees will be used to recover this deficit.

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CITY OF TREMONTON  
GOVERNMENTAL AUDIT REPORT  
June 30, 2006



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

To the Mayor and City Council  
City of Tremonton  
Tremonton, UT

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Tremonton, Utah (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no

matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the City in a separate letter dated December 21, 2006.

This report is intended solely for the information and use of the audit committee, management of the City, the City Council, and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.  
December 21, 2006

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CITY OF TREMONTON  
STATE COMPLIANCE REPORT

June 30, 2006



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH STATE LEGAL COMPLIANCE REQUIREMENTS**

To the Mayor and City Council  
City of Tremonton  
Tremonton, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tremonton Utah, (the City) for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major state assistance programs from the State of Utah:

Class C Road Funds (Department of Transportation)  
Liquor Law Enforcement Funds (State Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements).

Public Library Services Development Grant (Department of Community and Economic Development)  
EMT Grant (Department of Health)



Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Property Tax Limitations
- Justice Courts
- Special Districts
- Other Compliance Requirements
- Uniform Building Code Standards
- Impact Fees and Other Developmental Fees
- Asset Forfeiture

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of Tremonton, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.



JONES SIMKINS, P.C.  
December 21, 2006



**JONES  
P.C.  
SIMKINS**

**Certified Public Accountants**

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To the Mayor and City Council  
City of Tremonton  
Tremonton, UT

We have audited the financial statements of the City of Tremonton (the City) for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006.

**Communications Required Under Professional Standards**

Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards.**

As stated in our engagement letter dated June 26, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Significant Accounting Policies and Audit Adjustments

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our audit procedures. We noted that management had identified numerous issues prior to the start of our audit and, due to limited resources, requested that certain accounts be adjusted in conjunction with our audit procedures.

### **Internal Control**

In planning and performing our audit of the financial statements of the City for the year ended June 30, 2006, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material weaknesses.

However, we noted other matters involving internal control that, although not considered by us to be material weaknesses, are weaknesses in internal control for which corrective action might be taken.

### Council

1. We suggest that the City Council follow up on the recommendations in this letter and reflect the City's corrective actions or decisions in the council minutes before the next year's budget is adopted.
2. We noted that the City was late in filing a required monthly report to the State in two of the four months that we tested. We recommend that the City improve their procedures to ensure that these monthly reports are filed in accordance with state guidelines (before the 10<sup>th</sup> of each month).

3. We noted that the Sanitation and the Treasurer Departments exceeded their budgets. State law requires that departments to limit their expenditures to budgetary levels or seek authorized increases to the budget. We recommend that the City continue to monitor its departmental budget to ensure compliance with State law.
4. The City Council and management should be aware that accounting and auditing standards continue to be issued at a rapid rate. New standards effective in the near future require management to assess a wide variety of risks and implement controls to address these risks. Management needs to review these new standards and determine what impact they might have on the City's policies and procedures.

Council Responses:

1. The City Council will do as it has done in the past and review these comments as part of our budget and strategic planning process.
2. We have modified our procedures to indicate the date due for filing the report. We will do our best to ensure that procedures are followed in the future.
3. We will continue to monitor our budgets and will consider implementing additional procedures to ensure that departmental budgets are not exceeded.
4. Management and the City Council will consider the effects of the new standards and determine an appropriate response to address the new requirements.

All of the comments made in the prior year have either been addressed by management or have not been repeated because management has deemed that resolving the issue is impractical.

We express our appreciation for the courtesy and assistance extended to us by City employees during the course of our audit. A considerable amount of time was provided by the employees to help prepare schedules, locate documents and meet with our audit staff during the audit. This cooperation was extremely helpful. We will be pleased to discuss any of these recommendations at your convenience.

This report is intended solely for the use of the City Council, City management and certain regulatory bodies and should not be used for any other purposes.



JONES SIMKINS, P.C.  
December 21, 2006